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MAIN POINTS MADE IN THE INFORMAL HIGH-LEVEL PANEL DISCUSSION ON GLOBAL TRENDS IN THE WORLD ECONOMY AND THEIR IMPLICATIONS FOR THE TRADING OPPORTUNITIES OF DEVELOPING COUNTRIES

(Agenda item 3)

Summary prepared by the UNCTAD secretariat

1. The Ad Hoc Working Group held informal discussions on the global trends in the world economy and their implications for trading opportunities of developing countries. These discussions were preceded by presentations on the subject by invited experts. The issues put forward for discussion by the Chairman concerned the recent performance and prospects for the world economy, the factors affecting the growth and trade prospects of developing countries and the policy implications. The following paragraphs summarize the main points made by the panellists and the participants.

A. Outlook

2. There are a number of encouraging factors operating in the world economy. Consequently, the outlook facing the developing countries for their growth and exports expansion over the next decade was brighter than that of the 1970s and 1980s. Over the past three or four years, developing countries had been growing at a rate of 4.5 per cent a year and had thus fared much better than developed countries, thanks to a combination of good policies, low interest rates, a surge

in capital inflow and, more recently, removal of the uncertainty surrounding the Uruguay Round. This outlook was not, however, without risks, stemming from a number of factors. First, the predicted economic performance of developing countries would vary significantly, leading to a widening gap among these countries; secondly, the international economic climate could take a turn for the worse. Furthermore, because of structural changes in the world economy, the trading environment was becoming more competitive. Lastly, notwithstanding the successful conclusion of the Uruguay Round, protectionist pressures could re-emerge if the growth in OECD countries were to falter.

3. In the coming years growth in individual developed countries was likely to be better than in the past three years. OECD countries were expected to grow at 2.7 per cent a year. There was also a consensus that interest rates would probably stay low in comparison to past trends - possibly some 2 percentage points lower than in the 1980s. Prospects were that inflation would remain low. The real commodity prices with cyclical recovery were expected to stabilize in the next few years. Many developing countries had launched bold economic reforms including unilateral trade liberalization. Finally, there had been a surge in private capital flows to developing countries which had trebled in the past three years. Qualitatively different from those of the 1970s, these flows were more sustainable as they depended on the policies pursued by individual developing countries. All these positive developments would have beneficial implications for the trading opportunities of developing countries.

4. Moreover, studies showed that the conclusion of the Uruguay Round would add 1 per cent a year to world income in 2005 or $200 to $300 billion, with a third going to developing countries. This will give added impetus to growth in world trade which was an important determinant of developing countries' performance.

5. Although the perspective for the developing countries as a whole was quite promising, prospects for growth of individual developing countries would vary from region to region. The prospects for African countries were unfortunately less favourable. The slow progress of these countries had prevented them from integrating themselves into the world economy. These countries needed help in introducing the necessary domestic reforms. For this endeavour debt relief was important. There was also a need for these countries to find ways to reduce macroeconomic instability.

6. On the positive side, there had been a substantial turnaround in the economies of the Latin American countries in the 1980s, as a result of the unilateral liberalization efforts made by these countries. The most encouraging positive trend was the dynamic growth of the East Asian countries. Whereas in the past the world economy had been characterized by growth poles - namely in Western Europe (in particular Germany) the United States and Japan - there was now an area that was growing faster than the rest of the world, by the rate of at least 8 per cent per annum. Some of the East Asian countries had become net capital exporting countries, although this surplus capital was invested mostly in the neighbouring countries. Closer cooperation in trade and investment among developing countries held the promise of their new dynamic growth as well.

B. The problem of commodities

7. The most important negative trend over the past decade was the downward trend in real prices of commodities, a trend unprecedented in the twentieth century. The majority of developing countries, particularly those of Africa, were heavily dependent for economic development on the sale of primary commodities. Declining real prices of commodities resulted in enormous losses in export earnings. In the early 1990s, these losses had amounted to US$50 billion a year, an amount exceeding total ODA flows to all developing countries. This was one of the major reasons for the big increase in debt of low-income countries. Although it was important to avoid generalizations, the trend in the commodity situation could be attributed to three factors. First, some commodity markets were in persistent oversupply (for example, cocoa, coffee, tea, etc.). Secondly, where there was no oversupply, there were enormous fluctuations in prices, and hence in export earnings. A third factor was the displacement of primary commodities by synthetic materials. A logical solution in the short-term to the situation of oversupply was supply management, a policy actively pursued by developed countries, for example in agriculture. One reason why commodity agreements had failed to stabilize commodity prices was that they were not designed to handle a situation of sharply declining prices. Supply management would reduce fluctuations to a reasonable amount. The effect of intense competition from synthetics could be alleviated through a programme of research for better utilization of natural raw materials.

8. In the long-term, a combination of supply management and diversification was needed. However, many developing countries did not possess the necessary financial resources to engage in diversification programmes. Cooperation and support by the international community was therefore urgent in this regard.

9. The barriers to exports of processed commodities even after the Uruguay Round posed another limitation to the export prospects of developing countries. The deflationary biases in the international monetary system put pressure on developed countries to reduce their imports and increase their exports. Pressure should be brought to bear on surplus capital countries to expand their imports.

C. Regional integration

10. The prospects for trading opportunities were also affected by developments in regional integration. Contrary to the inward-looking South/South orientation prevailing in the 1960s, there was now a new trend of regionalism with an outward-looking North/South orientation. This new regionalism had a more positive impact for the opening of markets because negotiations took place across-the-board rather than item-by-item, as under multilateral trade negotiations, which in the past had neglected the dismantling of non-tariff barriers. However, this trend ran the risk of culminating in three trading blocs, putting countries outside these blocs at a great disadvantage.

D. Transfer of technology and investment flows

11. Foreign direct investment (FDI) and globalization of production had made a great impact on prospects for trading opportunities. In 1992, out of US$170 billion of FDI, $70 billion went to developing countries, most of which, however, taking place in 10 of these countries. For the other developing countries, FDI as a share of total investment is on the increase.

12. In 1992, foreign production of transnational corporations (TNCs), amounting to about US$5 trillion, was greater than world exports which are around US$5 trillion. The capacity to operate on a world-wide scale made TNCs an efficient allocator of resources. The key development in the last ten years had been the movement towards integrated international production systems or what is also called a movement towards globalization. Liberalization of trade and investment facilitated the transfer of technology while the emergence of information technology made management possible on a day-to-day basis. One important implication of this was that within a corporate network any part of the value-added chain could, in principle, be undertaken anywhere in the world. One-third of private productive assets world-wide were potentially amenable to integrated international production.

13. FDI implied control of assets abroad, not only of equity but also management. Countries wishing to attract foreign investment should have an open economic framework, that is, one that was stable and predictable and based on such standards as national treatment, arbitration, transfer of earnings, etc. This increased the need for Governments to be pro-active in a number of areas. First, the enabling framework should go beyond liberalization, for example, increasing certain norms as far as treatment of foreign workers was concerned, creating the infrastructure for domestic production, etc. Secondly, to attract inward investment, concrete possibilities should be offered, as for example of Swissair's transfer of its accounting department to India. Fiscal incentives did not seem to play a major role. Thirdly, countries should keep in mind that FDI in trade and technology were all part of the same package. The decision on where to locate depended on an overall strategic preference of companies for which Governments needed to devise a holistic approach. Fourthly, inward investment was not the only way for development to proceed. Proper conditions should also be devised to allow enterprises to become active internationally through outward investment.

E. Countries in transition

15. Eastern European countries in transition to market economies had gone through a period of deep recession. In 1993, the overall GDP of Eastern European countries further fell by 2 per cent, compared to the 8 per cent drop of the previous year. The situation was worse in the former Soviet Union, where the decline amounted to 20 per cent. There was, however, a slow and sluggish recovery in certain countries in transition.

16. The trade performance of these countries had taken a sharp turn away from intra-Eastern European trade which had collapsed, towards a substantial expansion with respect to OECD countries. The trade with developing countries fell sharply in 1990-1992 and was diverted to OECD countries. In fact the shares of developing countries fell from 10-20 per cent to less than 10 per cent. There were several reasons for this fall: (a) private sector preference to trade with neighbouring countries because of lack of finance, established contacts, etc.; (b) lack of institutional infrastructure for exports; in the past trade exports were supported by large State credits, buttressed by distribution networks; (c) the deep recession had affected the structure of imports. There was a rapid expansion of imports of consumer and capital goods from developed countries, whereas imports of intermediate products which came mostly from developing countries suffered the most

because of the recession; (d) finally, both groups of countries suffered from debt-burden problems.